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UNCLAS SECTION 01 OF 03 HARARE 000361

SIPDIS

AF/S FOR S.HILL  
ADDIS ABABA FOR USAU  
ADDIS ABABA FOR ACSS  
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN  
TREASURY FOR J.RALYEA AND T.RAND  
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN  
COMMERCE FOR BECKY ERKUL

SENSITIVE  
SIPDIS

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TAGS: [EINV](#) [ECON](#) [PGOV](#) [ASEC](#) [ZI](#)  
SUBJECT: SPOTTING INVESTMENT OPPORTUNITIES IN ZIMBABWE'S RUINS

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SUMMARY  
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¶1. (U) In the midst of Zimbabwe's distressed economy, some investors see opportunity that the risk averse abandoned long ago. Banking on economic recovery and attracted to Zimbabwe's cheap price tags, investors are looking at sectors with international links or those that will benefit from an increase in consumer spending. Zimbabwe is also ripe for a massive sale of state-owned assets once the government--or government policy--changes. Investors' bullish sentiment is based on an economic turnaround coming within three years or less, failing which many of the enterprises that investors are so hopeful about now probably will be out of business. END SUMMARY.

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Why Invest? The Pot of Gold at Rainbow's End  
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¶2. (SBU) Embassy officers met key investors in the hospitality, financial services, and mining sectors, as well as asset managers and economists in Harare to determine who is investing in Zimbabwe now and why. We learned that investors interested in profiting from Zimbabwe's potential are financing Zimbabwean companies through direct acquisition and equity purchases, hoping to position themselves to take advantage of an eventual economic recovery. Their interest, which suggests optimism about economic recovery that belies assessments about Zimbabwe's current economic predicament, will be crucial to jump starting recovery. Respected economist John Robertson estimates the economy needs USD 3.5 billion to operate even at its current shrunken state, but there is only USD 98 million worth of local currency in the economy. Foreign investment will help make up the difference, playing a significant role in Zimbabwe's economic recovery.

13. (SBU) Investors are drawn to the market by Zimbabwe's undervalued assets, according to Tongai Muzenda, the CEO of Zim Alloys, a chrome mining company. The Zimbabwe Stock Exchange (ZSE) is worth a third of what it was in 1997 at the Old Mutual implied rate of exchange (a proxy for the prevailing black market rate). Prominent stock broker Murray Lynton-Edwards cited ZSE-listed Delta Corporation, Zimbabwe's beverages giant, whose market capitalization is USD 300 million--less than half the value of its breweries, and Imara Asset Management's Managing Director Sean Gammon assessed Innscor, SeedCo and Dawn Properties as world class companies available at "Zimbabwe prices." The Financial Mail, a South African weekly, also lists the hotel chain ZimSun, the Kingdom Meikles group and cell phone company Econet as good bets for investors on the ZSE. Lynton-Edwards opined that international investors viewed Zimbabwe as a venue for the next Soviet-style sale of state assets, which could be bought cheaply and turned around.

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A Risky, but Small Piece of the Pie  
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14. (SBU) Zimbabwe is a risky place to invest, with abrupt shifts in policy from price controls to indigenization of assets that could destroy a company's value overnight. Most investors looking at Zimbabwe, however, are large enough and brave enough to accept Zimbabwe's sovereign risk. Imara Asset Managers was in London drumming up business for its Zimbabwe fund launched in February 2007 when opposition leader Morgan Tsvangirai was arrested and beaten in March 2007, but investors' fervor for Zimbabwe did not cool. The fund started with USD 5 million in February 2007 and now has USD 23 million invested. Gammon explained that for a hedge fund with USD 600 million in total assets, a USD 5 million investment in the

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Zimbabwe Stock Exchange is less than one percent of the total portfolio, so the risk is manageable.

15. (SBU) To hedge risk, many companies have couched their Zimbabwean assets as part of a pan-African strategy designed to capture Africa's positive growth trend. ZimSun is rebranding itself as African Sun to reflect its impending investments throughout the continent. The conglomerate Lonrho has five water bottling companies throughout the continent and is looking into purchasing a similar company in Zimbabwe, and has interests in the Kenyan-based airline, Fly 540, which it would like to bring into the Zimbabwe market. Many of these companies are chasing the oil and gas revenues that are leading growth in places like Angola and Gabon. Zimbabwe has good gas reserves and is a mining powerhouse, much of which is underutilized in the current environment.

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Strategy #1: Capturing International Demand  
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16. (SBU) Investors noted that the international community would be part of any recovery in Zimbabwe, bringing a tide of money into the financial, tourism and telecoms sectors. When Zimbabwe reengages with the international community again, investing in businesses that foreign consultants, advisors and tourists will use, such as hotels and international telecommunications links, will be profitable, according to Geoff Goss, CEO of the conglomerate LonZim. With this in mind, LonZim is spending USD 5 to USD 10 million to acquire companies and plans to spend another USD 5 to USD 10 million to develop them before selling them. If the businesses can be sold five years into an economic recovery, LonZim foresees making 5 to 10 times its initial investment. LonZim purchased two companies that would benefit from a recovery in financial services--Paynet, a payroll services provider and Celsys, a checkbook printer-- and has a payphone company that was very profitable until price controls reduced the price of a phone call to below the cost of the international tariff. LonZim also recently purchased Rollex, a fresh produce supplier to South African Woolworths and to UK-based Marks and Spencer for USD 5 million.

17. (SBU) Tourism has been recovering for the past three years and

will lead any upturn in the broader economy. The manager of the Holiday Inn, a ZimSun property in Mutare, said that occupancy rates had risen for the past three years from 53 percent in 2006 to 61 percent year to date. Shingirai Munyeza, CEO of the ZimSun hotel chain and chairman of the Zimbabwe Tourism Authority predicted when the economy turns around there will be a shortage of hotel rooms, as happened in Nigeria and Angola when their economies took off with the oil price boom. The Kingdom Meikles group is seeking to raise USD 300 million via an IPO of a company called Mentor plc on the London Stock Exchange and plans to spend USD 50 to USD 60 million refurbishing the five-star Meikles Hotel in Harare and investing in a safari lodge, according to Dave Mills, the director of retail at Kingdom Meikles. The potential quick rebound in tourism has both Goss and Munyeza separately investing in the airline industry with the hope of making Zimbabwe a regional air hub to compete with Johannesburg's O.R. Tambo International Airport.

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Strategy #2: Capture Pent-Up Local Demand  
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18. (SBU) Gammon argues that depending on foreign money and exports during an economic rebound is not the best investment strategy because the value of exports will decline in local currency terms while costs rise as the currency is revalued. Gammon is betting on another source of wealth: a consumer rebound. When Zimbabwe's economy begins to recover, money will trickle down into the local

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economy, boosting the market for consumer goods from food to clothing. Imara's investments are diversified, but include companies such as British American Tobacco and Delta Corporation, which will benefit from the increase in local wages that will occur when the value of the Zimbabwe dollar is stabilized as part of an economic recovery plan. Imara is buying listed assets based on a quick recovery scenario and assesses if Zimbabwe were to institute comprehensive economic reform, the economy could see USD 230 million of investment pour in within 3 months--before the sovereign risk premium falls.

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Investors Banking on Recovery, But How Soon?  
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19. (SBU) It goes without saying that investors are counting on economic recovery to realize their returns. If Zimbabwe fails to stabilize its economy and begin to grow again, many of the companies that have benefited from investors' capital will fail. Goss said if the economy's downward spiral continued for another three years, all the companies LonZim had invested in would be closed. Gammon argued that Imara is so bullish on Zimbabwean recovery that no matter who won the 29 March harmonized elections, economic reform would have to happen, in large part because civil servants are so badly affected by hyperinflation.

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COMMENT  
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10. (SBU) It is undeniable that government policy, especially price controls and the fixed exchange rate, has been devastating to business. However, investors can see the potential in a country that is still wealthier, with better infrastructure and skills, than many of its neighbors. While the positive outlook on Zimbabwe's economy is heartening, timing is key--and uncertain. With the harmonized elections passed and no result announced, the chance of economic reform in the short term seems remote, which may dash investors' hopes and make recovery even more difficult when things do come right. END COMMENT.

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